

MOCK TEST PAPER
FINAL (OLD) COURSE: GROUP - II
PAPER – 7: DIRECT TAX LAWS

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Question in Division A, working notes are not required.

All questions relate to Assessment Year 2020-21, unless stated otherwise in the question.

Time Allowed – 3 Hours

Maximum Marks – 100

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. LPG, a partnership firm, is engaged in the business of manufacturing of garments. It furnishes you the following data for the year ended 31.3.2020.

Profit & Loss Account

Particulars	₹	Particulars	₹
Expenses	2,36,00,000	Gross Turnover	2,55,00,000
Interest to partners (including ₹ 1,20,000 paid to Gopal for loan given by Gopal HUF)	5,40,000		
Salary to Partners:			
Jay (30,000 p.m.)			
Gopal (28,000 p.m.)			
Madhav (16,000 p.m.)	8,88,000		
Net Profit	4,72,000		
	2,55,00,000		2,55,00,000

Other Information:

- The partners share profits and losses equally.
- During the P.Y. 2018-19, the firm had incurred a business loss of ₹ 3,00,000 and unabsorbed depreciation of ₹ 1,50,000.
- On 01/04/2019, Mr. Jayesh, a partner died and his legal heir Mr. Jay got admitted on same day. Another partner, Mr. Raj, also retired on the same date.
- Mr. Madhav is not actively engaged in conducting the affairs of the business of the firm while Mr. Jay and Mr. Gopal are actively engaged in conducting the affairs of the business.
- Interest @16% p.a. for the first time on partner's capital was paid from 01.07.2019. The clause for the same was, however, entered in the partnership deed on 01.01.2020. Salary paid to partners is authorized by the partnership deed since inception.
- Mr. Gopal relinquished his title in a land in the name of LPG for a consideration of ₹ 18 lakhs, which was duly recorded in the books of accounts of LPG on 31.10.2018. The stamp duty value of the land on that date was ₹ 20 lakhs.

From the information given above, choose the **most appropriate answer** to the following questions –

(4 x 2 Marks = 8 Marks)

- (i) What would be the interest expenses which the firm can claim as deduction for A.Y. 2020-21?
- ₹ 5,40,000
 - ₹ 4,35,000
 - ₹ 2,25,000
 - ₹ 1,05,000
- (ii) The business loss and unabsorbed depreciation allowed to be set off while computing total income for A.Y. 2020-21 -
- ₹ 3,00,000 and ₹ 1,50,000, respectively
 - ₹ 2,25,000 and ₹ 1,50,000, respectively
 - ₹ 1,50,000 and ₹ 1,12,500, respectively
 - ₹ 2,25,000 and ₹ 1,12,500, respectively
- (iii) What would be the total income of the firm for A.Y.2020-21?
- ₹ 6,30,250
 - ₹ 4,12,000
 - ₹ 6,04,000
 - ₹ 5,29,000
- (iv) What would be the capital gains in the hands of LPG assuming that the land acquired from Gopal was sold on 28.02.2020 for ₹ 25 lakhs to Mr. Jack, fair market value and stamp duty value on date of transfer being ₹30 lakhs and ₹ 28 lakhs respectively?
- ₹ 10,00,000
 - ₹ 12,00,000
 - ₹ 8,00,000
 - ₹ 7,00,000
2. MCS Pvt. Ltd. is a company engaged in services of consultancy & business advisory. It provides various services like financial management, project advisory, business mergers, business valuations, etc. During the financial year 2019-20, it has provided various services and its total revenue / gross receipts amounted to ₹ 70,00,00,000. This is the first year of their operation and the company thinks it has faltered in various compliances. Moreover, during the year it received following loans in cash from various vendors due to some business exigency:
- ₹ 25,00,000 availed from Mr. A on 15th April 2019
 - ₹ 21,000 availed from Mr. B on 15th May 2019
 - ₹ 11,000 availed from Mr. C on 15th June 2019
- Further, MCS Pvt. Ltd. repaid the following amounts as loan repayments:
- ₹ 8,000 to Mr. A on 15th July 2019 in cash
 - ₹ 2,50,000 to Mr. A on 15th August 2019 through account payee cheque
 - ₹ 21,000 to Mr. A on 15th September 2019 through RTGS
 - ₹ 15,000 to Mr. A on 15th October 2019 through crossed cheque

MCS Pvt. Ltd. has also received an amount of ₹ 2,00,000 for services rendered to Mr. Shyam through bearer cheque. Also, he received cash for services rendered to Mr. Ankit of ₹ 90,000. Furthermore, MCS Pvt. Ltd. does not know about the applicability of tax audit under section 44AB of the Income-tax Act, 1961.

From the information given above, choose the **most appropriate answer** to the following questions –

(4x 2 Marks = 8 Marks)

- (i) What is the amount of penalty, if any, which MCS Pvt. Ltd. will have to bear on availing loan in cash from various vendors?
 - (a) Penalty of ₹ 25,32,000 under section 271E
 - (b) Penalty of ₹ 25,21,000 under section 271D
 - (c) Penalty of ₹ 25,00,000 under section 271E
 - (d) Penalty of ₹ 25,32,000 under section 271D
 - (ii) What is the amount of penalty leviable on repaying loan in cash to Mr. A?
 - (a) Penalty of ₹ 23,000 under section 271E
 - (b) Penalty of ₹ 23,000 under section 271D
 - (c) Penalty of ₹ 44,000 under section 271D
 - (d) Penalty of ₹ 44,000 under section 271E
 - (iii) Has MCS Pvt. Ltd. violated any provision of the Income-tax Act, 1961 while receiving payment from Mr. Shyam and Mr. Akhil? If yes, what is the amount of penalty which MCS Pvt. Ltd. is liable to pay?
 - (a) Yes, contravention of section 269ST in receiving payment from Mr. Shyam; Penalty of ₹ 2,00,000 under section 271DA; No contravention in receiving payment from Mr. Akhil
 - (b) Yes, contravention of section 269ST in receiving payment from Mr. Shyam and Mr. Akhil & Penalty of ₹ 2,90,000 under section 271DA
 - (c) Yes, contravention of section 269SU in receiving payment from Mr. Shyam & Penalty of ₹ 2,00,000 under section 271DB is attracted; No contravention in receiving payment from Mr. Akhil
 - (d) No violation on receiving payment from either Mr. Shyam or Mr. Akhil
 - (iv) What is the time limit for filing Tax Audit Report for A.Y. 2020-21 and the amount of penalty if the company does not file its tax audit report within the due date?
 - (a) 30.09.2020; ₹ 35,00,000 under section 271A
 - (b) 31.10.2020; penalty leviable is ₹ 35,00,000 under section 271B
 - (c) 30.09.2020; penalty leviable is ₹ 1,50,000 under section 271B
 - (d) 31.03.2021; penalty leviable is ₹ 1,50,000 under section 271
3. Mr. B has been holding 5% units in Investment Fund, 10% units in Real Estate Investment Trust, 7.5% units in Securitisation Trust for more than 15 months. The following incomes were earned by these funds/trust during the P.Y. 2019-20 :

Particulars	Investment Fund (₹)	Real Estate Investment Trust (₹)	Securitisation Trust (₹)
Rental Income from owned asset	-	10,00,000	-

Interest income from Special Purpose Vehicle	-	8,00,000	-
Profit from Business	5,00,000	-	6,00,000
Other Income	2,00,000	1,00,000	-
Long-term capital loss	(12,50,000)	-	-

What would be the total income of Mr. B for P.Y. 2019-20 assuming apart from share of Mr. B in above income, Mr. B had only long-term capital gains of ₹ 2,70,000?

- (a) ₹ 4,42,500
- (b) ₹ 4,67,500
- (c) ₹ 4,52,500
- (d) ₹ 5,05,000

(2 Marks)

4. Mr. Mahesh is found to be the owner of two gold chains of 50 gms each (market value of which is ₹ 1,45,000 each) during the financial year ending 31.3.2020 but he could offer satisfactory explanation for ₹ 50,000 spent on acquiring these gold chains. As per section 115BBE, Mr. Mahesh would be liable to pay tax of –

- (a) ₹ 1,87,200
- (b) ₹ 2,26,200
- (c) ₹ 1,49,760
- (d) ₹ 1,80,960

(2 Marks)

5. Mr. Sarthak (a non-resident and aged 65 years) is a retired person, earning rental income of ₹ 40,000 per month from a property located in Mumbai. He is residing in Germany. Apart from rental income, he does not have any other source of income. Is he liable to pay advance tax in India?

- (i) Yes, he is liable to pay advance tax in India
- (ii) No, he is not liable to pay advance tax in India as his tax liability in India is less than ₹ 10,000.
- (iii) No, he is not liable to pay advance tax in India as he has no income chargeable under the head “Profits and gains of business or profession”.
- (iv) No, he is not liable to pay advance tax, since he is of the age of 60 years or more during the P.Y. 2019-20.

The most appropriate answer is –

- (a) Only (i)
- (b) Only (ii)
- (c) (ii) and (iii)
- (d) (ii), (iii) and (iv)

(2 Marks)

6. XYZ Ltd. a Foreign Institutional Investor (FII), has total income comprising of short-term capital gains on sale of listed preference shares of ₹ 50 lakh and interest income referred under section 194LD of ₹ 15,00,000, only. Compute the tax liability of the FII for the previous year 2019-20.

- (a) ₹ 8,58,000
- (b) ₹ 16,38,000
- (c) ₹ 15,75,000

(d) ₹ 18,72,000

(2 Marks)

7. Mr. Jakir, a non-resident, wants to file an application before the AAR pertaining tax implications arising in respect of a service contract entered with an Indian company, under the provisions of the Income-tax Act, 1961. He is of the opinion that the following persons can be a revenue member of a Bench of the AAR for the purpose of adjudicating his advance ruling application.

- (i) A person from the Indian Revenue Service who is qualified to be a member of CBDT
- (ii) A officer of the Indian Customs and Central Excise Service who is qualified to be a member of CBEC
- (iii) A member from the Indian Legal Service, who is a Joint Secretary to the Government of India

Identify, who can be a revenue member of a bench of the AAR for adjudicating his advance ruling application?

- (a) (i) or (ii)
- (b) (i) or (iii)
- (c) (i), (ii) or (iii)
- (d) (i) only

(2 Marks)

8. M/s TPS, a partnership firm, engaged in the trading business of electrical appliances. Its turnover for the previous year 2019-20 is ₹ 1,10,00,000. It has received the amount of its turnover in the following manner-

Amount of turnover (₹)	Mode of Receipt
70,00,000	Account payee cheques (₹5,00,000 received on 30.4.2020)
10,00,000	Cash (whole amount received during the P.Y. 2019-20)
15,00,000	Crossed cheques (whole amount received during the P.Y. 2019-20)
10,00,000	RTGS (₹ 2,00,000 received on 15.5.2020)

₹ 5,00,000 is not received by the firm till the due date of filing return of income for the current previous year. What would be the total income of the firm, if it wishes to make maximum tax savings without getting its books of accounts audited?

- (a) ₹ 7,34,000
- (b) ₹ 6,80,000
- (c) ₹ 7,20,000
- (d) ₹ 6,90,000

(2 Marks)

9. Mr. Ranveer, a non-resident earned interest income of ₹ 6,20,000 during the P.Y. 2019-20 on bonds, issued by Tilt Ltd., an Indian company, under a scheme notified by the Central Government, which were purchased by him in convertible foreign currency, is –

- (a) Not taxable
- (b) Taxable @10.4%
- (c) Taxable @15.6%
- (d) Taxable @20.8%

(1 Mark)

10. Any term used in a DTAA with a foreign country and not defined in the agreement or the Act but assigned a meaning in the notification issued by the Central Government in the Official Gazette, shall have the meaning assigned in such notification and shall be effective from the -

- (a) Date on which the said DTAA came into force

- (b) Date on which the said notification became effective
- (c) Date on which the said notification published in the Official Gazette
- (d) Date on which the said DTAA was signed

(1 Mark)

Division B – Descriptive Questions

Question No. 1 is compulsory

Attempt any **four** questions from the remaining **five** questions

1. KMP Construction Ltd., an Indian company is engaged in the business of executing civil contracts awarded by various companies, Central Government and State Governments in relation to infrastructure facility.

Statement of Profit & Loss for the year ended 31st March, 2020 reveals a net profit (before tax) amounting to ₹ 85,00,000 after debiting/crediting the following items:

- (a) Interest of ₹ 3,00,000 due to a public financial institution for the last quarter of the financial year 2019-20 paid on 20th December, 2020.
- (b) ₹ 6,00,000 to Mr. George, a non-resident, towards fee for technical services without deduction of tax at source. TDS was, however, deducted and paid on 30th December, 2020.
- (c) Damages amounting to ₹ 15,00,000 paid to the Government of Gujarat as per the terms of contract for defects found in construction of a flyover after 5 years of its construction.
- (d) Depreciation charged ₹ 20,00,000.
- (e) Marked to market loss amounting to ₹ 6,00,000 in respect of an unsettled derivative contract. The contract was settled in May, 2020 with a gain of ₹ 1,00,000.
- (f) Profit of ₹ 10,00,000 on sale of land to N Inc., U.S.A. which is a wholly owned subsidiary company.
- (g) Retention money amounting to ₹ 10,00,000 held by a public sector undertaking which can be released after expiry of two years on the satisfaction of certain performance criteria as per the terms of contract.
- (h) ₹ 3,00,000 being interest on fixed deposit made with a bank as margin money for obtaining a guarantee required by a State Government for a particular contract.
- (i) Income of ₹ 10,00,000 received from a Real Estate Investment Trust (REIT), the break-up of which is as follows:
 - Component of short-term capital gain on sale of development properties by the REIT ₹ 6,00,000.
 - Component of rental income from properties owned by the REIT ₹ 4,00,000.

Other Information:

- (i) Depreciation as per Income-tax Rules, 1962 ₹ 25,00,000.
- (ii) Land sold to N Inc. was acquired at a cost of ₹ 30,00,000 on 25.05.2015. Value assessed by the Stamp Valuation Authority on the date of sale was ₹ 50,00,000 (Cost Inflation Index- Financial Year 2015-16 : 254; Financial Year 2019-20 : 289)
- (iii) 82 new employees employed during the P.Y. 2019-20, the details of whom are as follows –

	No. of employees	Date of employment	Regular/Casual	Total monthly emoluments per employee (₹)
(i)	15	1.4.2019	Regular	24,000

(ii)	25	1.5.2019	Regular	26,000
(iii)	32	1.8.2019	Casual	24,500
(iv)	10	1.9.2019	Regular	24,000

The regular employees participate in recognized provident fund while the casual employees do not.

Compute the total income of KMP Construction Ltd. for the Assessment Year 2020-21 indicating reasons for treatment of each item and ignoring the provisions relating to minimum alternate tax (MAT) assuming the company does not opt for the provisions of section 115BAA. The due date for filing of return of income for Assessment Year 2020-21 be taken as 30-11-2020, since during the previous year 2019-20, it entered into international transaction with its associates. **(14 Marks)**

2. (a) XYZ LLP, a limited liability partnership in India is engaged in development of software and providing IT enabled services through two units, namely, Unit X and Unit Y. Unit X is setup in Special Economic Zone (SEZ) and Unit B is set up in a Domestic Tariff Area (DTA). The LLP furnishes the following information relating to its 4th year of operation ended on 31-3-2020:

Items	(Amount in ₹ Lacs)	
	Unit X	Unit Y
Export Turnover	1200	920
Domestic Turnover	200	460
Duty Draw Back	38	38
Profit on sale of Import Entitlement	24	Nil
Salaries paid	540	192
Other expenses	420	473
Net Profit of the year	502	753

Additional Information:

- (i) **Unit X:** Expenses of ₹ 24 lacs are disallowable under section 43B and export sales proceeds received in India amounted to ₹ 1,040 lacs. Export sales of ₹ 1,200 lacs include freight and insurance of ₹200 lacs and realization of ₹1,040 lacs includes amount of insurance and freight charges of ₹140 lacs.
- (ii) **Unit Y:** Export sales received in India was ₹ 850 lacs. Expenses charged and are to be disallowed as per section 40A(3) are of ₹ 47 lacs.

Compute tax payable by XYZ LLP for the Assessment Year 2020-21. **(8 Marks)**

- (b) (i) Rule 10MA(2)(iv) of Income-tax Rules, 1962 requires that the application for rollback provision, in respect of an international transaction, has to be made by the applicant for all the rollback years in which the said international transaction has been undertaken by the applicant.

In this context, you are required to explain whether the rollback has to be requested for all the four years or applicant can choose the years out of the block of four years. **(3 Marks)**

- (ii) Texo Bank Ltd., carrying on banking business, is incorporated in California, USA. It has branches in different countries including India. During the financial year 2019-20, the Indian branch of the bank paid interest of ₹ 35 lakhs and ₹ 15 lakhs, to its head office in California and to the branch office in Sydney, respectively. Examine with reasons whether interest so paid shall be liable to tax in India in the hands of head office and Sydney branch. **(3 Marks)**

3. (a) You are required to compute the total income of Sarv Mangal Charitable Trust registered under section 12AA from the following information pertaining to P.Y. 2019-20. Also, compute its income-tax liability in such a manner that it can avail the optimal benefit within the four corners of the Income-tax Act, 1961.
- Gross receipts from hospital ₹ 200 lakhs.
 - Corpus donations by way of cheque ₹ 42 lakhs and by way of cash ₹ 6 lakhs not included in above receipts.
 - Anonymous donations by cash ₹ 12 lakhs not included in above receipts.
 - Administrative expenses for hospital ₹ 77 lakhs. It includes repair and maintenance expenditure of ₹ 2 lakhs for which payment was made in cash.
 - The trust gave corpus donation of ₹ 19 lakhs to "Serve the Poor" Trust having objects of charitable nature registered under section 12AA but not similar to the objects of the donor trust.
 - Fees not realized from patients ₹ 18,00,000 as on 31st March, 2020.
 - Depreciation on assets of the trust ₹ 37,50,000. The entire cost of assets ₹ 250 lakhs claimed as application in the earlier years.
 - Acquired a building for ₹ 80 lakhs on 01.06.2019 for expansion of hospital (cost of land included therein ₹ 50 lakhs). Stamp duty value of the land and building on the date of registration of sale deed ₹ 210 lakhs.

Note: Trust follows the cash system of accounting. It does not want to seek accumulation of income by virtue of section 11(2) of the Act. **(8 Marks)**

- (b) The business premises of Sunita Rao were searched under section 132. The search was concluded on 30.04.2019 and following assets/documents were found which were not recorded in her books of accounts:

Assets/documents	Amount (₹)
Jewellery pertaining to P.Y. 2014-15	₹ 25 Lacs
Agreement for purchase of land which contains the payment of advance in cash in the P.Y.2013-14	₹ 35 Lacs
Aggregate value of shares purchased in the P.Y.2011-12 and in the P.Y.2012-13	₹ 45 Lacs
Paper containing the payment in the P.Y.2009-10 to a contractor for construction of residential house	₹ 25 Lacs
Paper containing the payment in the P.Y.2008-09 to the same contractor for construction of residential house	₹ 20 Lacs

Accordingly, Assessing Officer has issued the notice for all the previous years from P.Y.2008-09 to P.Y.2018-19 under section 153A.

However, Miss Sunita Rao contented that the Assessing Officer cannot issue the notice under section 153A beyond six assessment years immediately preceding the assessment year relevant to the previous year in which the search was conducted under section 132 i.e. notice can be issued upto A.Y.2014-15 (P.Y. 2013-14). Discuss about the correctness of action of Assessing Officer and the contention of Miss Sunita Rao. **(6 Marks)**

4. (a) Discuss the liability for tax deduction at source in the following cases for the Assessment year 2020-21:
- (i) Mr. Raghav gave a building on sub-lease to MT Ltd. with effect from 1-6-2019 on a rent of ₹20,000 per month. The company also took a machinery on hire from Raghav with effect from 1-10-2019 on hire charges of 15,000 per month. The rent for building and hire charges of machinery for the year 2019-20 were credited by the company to the account of Raghav in its books of account on 31-3-2020.
 - (ii) Mr. Sarthak, an individual, whose turnover from the business carried on by him during the financial year immediately preceding the financial year exceed ₹ 100 lakh, on 15th October 2019, paid fee to an architect of ₹ 54,00,000 for furnishing his residential house. **(4 Marks)**
- (b) A Limited entered into an agreement for the warehousing of its products with MNO Warehousing and deducted tax at source as per the provisions of section 194C out of warehousing charges paid during the year ended on 31.03.2020. The A.O. while completing the assessment for Assessment Year 2020-21 of A Limited, asked the company by treating the warehousing charges as rent, as defined in section 194-I, to make payment of difference amount of TDS with interest. It was submitted by the company that the recipient had already paid tax on the entire amount of warehousing charges and therefore, now the difference amount of TDS be not recovered. However, it was prepared to make the payment of due interest of the difference amount TDS. Examine critically the correctness of the action or the treatment given. **(4 Marks)**
- (c) S Ltd. is an Indian Company in which B Inc., a France based company, has 32% shareholding and voting power. Following transactions were effected between these two companies during the financial year 2019-20.
- (i) S Ltd. sold 45,000 pieces of shirt at \$ 2 per shirt to B Inc. The identical shirts were sold to unrelated party namely MNO Inc., at \$ 3 per shirt.
 - (ii) S Ltd. borrowed \$ 1,50,000 from a foreign lender based on the guarantee of B Inc. For this, S Ltd. paid \$ 8,500 as guarantee fee to B Inc. From an unrelated party for the same amount of loan, B Inc. collected \$ 6,500 as guarantee fee.
 - (iii) S Ltd. paid \$12,000 to B Inc. for getting various potential customers details to improve its business. B Inc. provided the same service to unrelated parties for \$ 11,000.

Assume the rate of exchange as \$ 1 = ₹ 70

S Ltd. is located in a Special Economic (SEZ) and its income before transfer pricing adjustments for the year ended 31st March, 2020 was ₹ 850 lakhs.

Compute the adjustments to be made to the total income of S Ltd. If such adjustments are made by the Assessing Officer, can S Ltd. claim deduction under section 10AA for the income enhanced by applying transfer pricing provisions. **(6 Marks)**

5. (a) (i) An Income-tax authority did not file an appeal to the Income-tax Appellate Tribunal against an order of the Commissioner (Appeals) decided against the Income-tax department on a particular issue in case of one assessee, Sarita for assessment year 2019-20 on the ground that the tax effect of such dispute was less than the monetary limit prescribed by CBDT. In assessment year 2020-21, similar issue arose in the assessments of Sarita and her brother Sagar, which was decided by the Commissioner (Appeals) against the Department. Can the Income-tax department move an appeal to the Tribunal in respect of A.Y. 2020-21 against the orders of the Commissioner (Appeals) for Sarita and her brother Sagar? **(4 Marks)**

OR

- (ii) The Assessing Officer lodged a complaint against M/s. PQR, a firm, under section 276CC of the Income-tax Act, 1961 for failure to furnish its return of income for the A.Y.2020-21 within the due date under section 139(1). The tax payable on the assessed income, as reduced by the advance tax paid and tax deducted at source, was ₹ 75,000. The appeal filed by the firm against the order of assessment was allowed by the Commissioner (Appeals). The Assessing Officer passed an order giving effect to the order of the Commissioner (Appeals). The tax payable by the firm as per the said order of the Assessing Officer was ₹ 2,750. The Assessing Officer has accepted the order of the Commissioner (Appeals) and has not preferred an appeal against it to the Income Tax Appellate Tribunal. The firm desires to know of the maintainability of the prosecution proceedings in the facts and circumstances of the case. **(4 Marks)**
- (iii) Mr. Aniket had approached the Settlement Commission for waiver of interest under sections 234A to 234C of the Income-tax Act, 1961. The Settlement Commission partially waived the interest but refused to grant interest on refund on the grounds that section 244A does not provide for payment of interest in such cases. Further, the Settlement Commission contended that its power to waive interest does not enable it to provide for payment of interest under section 244A. Discuss the correctness of the Settlement Commission's action in denying to grant interest on refund. **(4 Marks)**
- (b) Examine the taxability in the hands of Tyrax Inc, a US company as per the provisions of the Income-tax Act, 1961 and other requirement, if any, in the following two independent situations:
- I. If Tyrax Inc., does not have a permanent establishment in India, received income by way of fees for technical services of ₹1.5 crore from ATP Ltd., an Indian company, in pursuance of an agreement between ATP Ltd. and Tyrax Inc. entered into in the year 2015, which is approved by the Central Government. Expenses incurred for earning such income is ₹ 7.2 lakhs. **(2 Marks)**
- II. If Tyrax Inc. has a permanent establishment in India and the contract/agreement with ATP Ltd. for rendering technical services is effectively connected with such PE in India

	Particulars	Amount
(1)	Fees for technical services received from ATP Ltd.	₹ 2.5 crore
(2)	Expenses incurred for earning such income	₹ 5 lakhs
(3)	Fees for technical services received from other Indian companies in pursuance of approved agreement entered into between the years 2008 to 2014	₹ 4.8 crore
(4)	Expenses incurred for earning such income	₹ 12 lakhs
(5)	Expenditure not wholly and exclusively incurred for the business of such PE [not included in (2) & (4) above]	₹ 6.3 lakhs
(6)	Amounts paid by the PE to Head Office (not being in the nature of reimbursement of actual expenses)	₹ 12.7 lakhs

(4 Marks)

6. (a) Mr. Varun, a stock broker, has defaulted with regard to his income-tax payments and the Assessing Officer has attached his membership card of Stock Exchange under section 281B of the Income-tax Act, 1961. Mr. Varun contends that the membership card is not transferable and is not his personal asset. Discuss the validity of attachment of the card by the Assessing Officer in the context of Section 281B. **(4 Marks)**

(b) Examine whether the following acts can be considered as (i) Tax planning; or (ii) Tax management; or (iii) Tax evasion. Give brief reasons for your answer.

(I) Miss Kashish, a resident, deposits ₹1,50,000 in PPF account so as to reduce her total income from ₹6,40,000 to ₹ 4,90,000.

(II) A company installed an air-conditioner costing ₹ 80,000 at the residence of a director as per terms of his appointment but treats it as fitted in quality control section in the factory. This is with the objective of treating it as plant for the purpose of computing depreciation.

(4 Marks)

(c) (i) Zeta Inc, a company incorporated in Malaysia, was engaged in manufacture, trade and supply equipment and services for GSM Cellular Radio Telephones Systems. It supplied hardware and software to various entities in India. Software licensed by assessee embodied the process which is required to control and manage the specific set of activities involved in the business use of its customers, and also made available to its customers, who used it to carry out their business activities. The Assessing Officer contented that the consideration for supply of software embedded in hardware is 'royalty' under section 9(1)(vi)

Examine the correctness of the action of the Assessing Officer assuming that the software that was loaded on the hardware and embedded in the system does not have any independent existence.

(4 Marks)

(ii) James (aged 65 years), a foreign national and a match referee came to India for T-20 and other match tournaments during the previous year 2019-20. He stayed in India during the previous year for 55 days. He received ₹ 7 lakhs for T-20 in India. He also received ₹ 1.3 lakh for an advertisement of a product on TV. When he stayed in India, he also won a prize of ₹ 30,000 from horse racing in Patna. He has no other income in India during the year. Compute tax liability of James for Assessment Year 2020-21.

(2 Marks)